

ANNUAL REPORT 1972

AR47



VAN DER HOUT ASSOCIATES LIMITED

CORPORATE DIRECTORY

OFFICERS: JOHN B. VAN DER HOUT
President
ROY A. EDWARDS
Assistant to the President
VICTOR L. VAN DER HOUT
Vice-President
EDWARD E. NOONAN
Secretary
MELVYN A. STEIN
Treasurer

DIRECTORS: BARRY S. ARBUS
Partner, Lyons and Arbus, Solicitors
ROY A. EDWARDS
Assistant to the President
K. GORDON GREEN
Vice-President and Director, Nesbitt, Thomson and Company
EDWARD E. NOONAN
Secretary
JOHN H. SANDERSON
President, J. C. Adams Co. Limited
JOHN B. VAN DER HOUT
President
VICTOR L. VAN DER HOUT
Vice-President

HEAD OFFICE: 3600 Lakeshore Blvd. West
Toronto, Ontario M8W 1N8

TRANSFER AGENTS: Guaranty Trust Company of Canada
Toronto

AUDITORS: Laventhol Krekstein Horwath & Horwath
Chartered Accountants
Toronto

LISTED: Toronto Stock Exchange
Canadian Stock Exchange

HIGHLIGHTS

	<u>1972</u>	<u>1971</u>
SALES — Van Der Hout Associates	\$ 3,091,979	\$ 3,479,941
SALES — Gabriel of Canada	15,538,748	16,483,840
TOTAL SALES UNDER MANAGEMENT	<u>\$18,630,727</u>	<u>\$19,963,781</u>
NET EARNINGS	\$ 907,189	\$ 624,808
EARNINGS PER SHARE	\$ 1.04	\$.74
WORKING CAPITAL — Van Der Hout Associates	\$ 1,294,792	\$ 904,826
SHAREHOLDERS' EQUITY — Van Der Hout Associates	\$ 4,740,029	\$ 3,713,995
RETURN ON EQUITY — Van Der Hout Associates	19.1%	16.8%
WORKING CAPITAL — Gabriel of Canada	\$ 3,611,709	\$ 2,424,742
SHAREHOLDERS' EQUITY — Gabriel of Canada	\$ 6,222,791	\$ 4,743,116
RETURN ON EQUITY — Gabriel of Canada	23.2%	19.1%
NUMBER OF SHARES OUTSTANDING	892,166	852,166
NUMBER OF REGISTERED SHAREHOLDERS	1,038	1,231
BOOK VALUE PER SHARE	\$ 5.31	\$ 4.36

To our shareholders:



The year 1972 was the most profitable in our company's history and is the sixth consecutive year for which I have been able to report record earnings.

FINANCIAL RESULTS

Sales were lower in 1972 as a direct result of our elimination of a substantial portion of what, in late 1971, we determined to be unsuitably margined business. The programme to eliminate those sales was very successful, with increases in new business exceeding our earlier projections. The resultant change in sales mix has had beneficial effects on pre-tax margins. Our pre-tax earnings on net sales for our Gabriel Division increased from 11.5% to 18.0% while our Orangeville Division increased from 10.8% to 13.5%.

Total net sales under management were \$18,630,727 in 1972, seven percent lower than the \$19,963,781 achieved for 1971. Net earnings, on the other hand, increased 45.2% to \$907,189 from the \$624,808 for 1971.

Earnings per share were \$1.04 compared to 74c in 1971, an increase of 40.5%.

GABRIEL DIVISION

The Gabriel Division encompasses the manufacturing and distributing of shock absorbers and tail and exhaust pipe for both original equipment and replacement use.

In 1969 we adopted the equity method of accounting for our investment in Gabriel. We have provided in this report, for the first time, virtually the complete financial statements of Gabriel for 1972 with comparative figures for 1971. I am sure you will find these figures interesting and wish to point out some of the more significant factors.

Working capital improved in the year by \$1,186,967 to \$3,611,709 primarily reflecting cash flow through profit. The Company had a working capital ratio of 2.2:1 in 1972 compared to 1.8:1 in 1971. Ratio of debt to equity in 1972 was 0.2:1 compared to 0.4:1 in 1971. Return on equity in 1972 was 23.2% compared to 19.1% in 1971. Gross margins on sales were 27.2% in 1972 compared to 19.6% in 1971 and pre-tax profits on sales were 18.0% in 1972 compared to 11.5% in 1971.

The Company is in a strong position to maintain its upward thrust of earnings and is financially capable of considering expansion plans.

The next expansion of the Company will likely centre around the facility required for production of bumper energy absorbers for automobiles. To this end the Company is working with certain car manufacturers to assess their particular requirements and to develop a suitable level of participation for us in this new market.

Another area of interest in the Gabriel Division is that of exhaust system components. We presently manufacture tail and exhaust pipe in our Ajax plant primarily for original equipment use. In addition to exploring other markets for our product, we are anticipating changes in the requirements of the car makers to meet emission control standards which should result in a greater potential sales volume for this part of our operations.

VDH - ORANGEVILLE DIVISION

Our Orangeville Division includes the manufacturing, importing, service and distribution operations of Van Der Hout Associates, J. C. Adams Company Limited, Jaco Catalogue Equipment Limited and Permatex-Pep Limited. These operations are conducted out of our 76,000 square foot facility in Orangeville, Ontario.

The products supplied to the Canadian service and replacement market include brake service equipment, for both drum and disc brakes, tire changing equipment, signal gongs, mechanics tools and gauges, sealants, adhesives and specialty chemicals, windshield wipers, thermostats, fasteners, specialty hardware and fittings, heater and air conditioner parts, tail and exhaust pipes and others.

These products are, in the main, distributed through the traditional replacement market channels, with some sales being made to oil companies and mass merchandisers.

Early in 1973 an agreement was signed whereby our Company will be acquiring Monahan Supply Corporation Limited.

The Monahan organization founded in 1936 by L. P. Monahan and operated by him since, is a well known company in the replacement automotive, industrial and hardware fields in Canada. The Company makes and distributes a variety of products to those markets. The melding of the Monahan sales force with that of our Orangeville Division will provide additional strength for the combined operation.

A good portion of 1973 will be spent in internal reorganization to make optimum use of the combined facilities and personnel now available to us. We do not anticipate any significant contribution to earnings by Monahan in 1973. By 1974, however, we anticipate that the Monahan acquisition will account for about one-quarter of our Orangeville Division's income.

THE FUTURE

Reference has been made in the earlier part of my report to certain new products being developed and to the acquisition presently under way. In addition to the items referred to specifically, the Company is in the process of developing other new products for our ever changing market and continues to search out suitable companies for acquisition.

There has been much controversy of late surrounding the U.S. - Canada Auto Pact, some people calling for the opening of the pact to even freer trade and some calling for the abolition of the pact and the return to pre-pact tariff structures.

We have been successfully exporting to the U.S. both under the pact and also to customers who do not qualify for duty-free entry. In spite of the fact that sales to this latter group bear duty going into the U.S., we remain competitive, and have experienced good sales growth in this area.

Our past growth record was achieved as a result of our ability to effectively compete within the markets that we serve. This ability to compete is characteristic of our management group and on behalf of myself and the Board of Directors I wish to thank all of our personnel for their continued loyalty and support.

On behalf of the Board,

J. B. VAN DER HOUT,
President.

CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31	
	1972	1971
Sales	\$3,091,979	\$3,479,941
Cost of sales	1,979,148	2,289,236
Selling, general and administrative expenses	648,584	777,886
Depreciation and amortization of fixed assets	25,796	23,386
	<u>2,653,528</u>	<u>3,090,508</u>
Income before income taxes and minority interest	438,451	389,433
Less:		
Income taxes	216,415	195,295
Minority interest	21,042	13,596
	<u>237,457</u>	<u>208,891</u>
	200,994	180,542
Equity in net earnings of Gabriel of Canada Limited	706,195	444,266
Net income	<u>\$ 907,189</u>	<u>\$ 624,808</u>
Earnings per share (Note 10)	<u>\$ 1.04</u>	<u>74c</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Retained earnings, beginning of year (as restated — Note 6)	\$2,661,370	\$2,036,562
Net income	907,189	624,808
Retained earnings, end of year	<u>\$3,568,559</u>	<u>\$2,661,370</u>

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS

Contributed surplus, beginning of year (as restated — Note 6)	\$ 289,643	\$ 267,154
Grants received	18,845	22,489
Contributed surplus, end of year	<u>\$ 308,488</u>	<u>\$ 289,643</u>

SEE ACCOMPANYING NOTES.

CONSOLIDATED BALANCE SHEET DECEMBER 31, 1972

	1972	1971 (Restated) (Note 6)
ASSETS		
Current:		
Cash and short-term deposit receipts	\$ 381,503	\$ 203,032
Accounts receivable	426,773	415,262
Sundry receivables and prepaid expenses	42,106	60,861
Merchandise inventory, at lower of cost and net realizable value	886,892	1,119,054
	<u>1,737,274</u>	<u>1,798,209</u>
Investments and advances:		
Interest in Gabriel of Canada Limited (Note 2)	3,054,166	2,329,126
Fixed (Note 3):		
Property, plant and equipment, at cost	587,804	563,837
Less accumulated depreciation and amortization	166,354	140,559
	<u>421,450</u>	<u>423,278</u>
Other:		
Cash surrender value of life insurance	46,716	44,706
	<u>\$5,259,606</u>	<u>\$4,595,319</u>

LIABILITIES		
Current:		
Accounts payable and accrued liabilities	\$ 351,947	\$ 804,336
Corporation income taxes	61,635	60,147
Commitment to minority interest (Note 4)	24,900	24,900
Current portion of mortgage payable	4,000	4,000
	<u>442,482</u>	<u>893,383</u>
Long-term debt:		
6% mortgage payable, due June 1, 1975	10,000	14,000
Less current portion	4,000	4,000
	<u>6,000</u>	<u>10,000</u>
Minority interest (Note 4)	<u>71,095</u>	<u>77,941</u>
SHAREHOLDER'S EQUITY		
Capital:		
Authorized:		
1,500,360 Common shares, no par value		
Issued:		
892,166 Shares (852,166 — 1971) (Note 5)	882,504	682,504
Retained earnings	3,568,559	2,661,370
Contributed surplus (Note 6)	308,488	289,643
	<u>4,759,551</u>	<u>3,633,517</u>
Deduct:		
2,600 Shares acquired and held for future disposition (at cost)	19,522	19,522
	<u>4,740,029</u>	<u>3,613,995</u>
	<u>\$5,259,606</u>	<u>\$4,595,319</u>

Approved on behalf of the Board of Directors:
J. B. Van Der Hout (Director) E. E. Noonan (Director)

SEE ACCOMPANYING NOTES.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Year Ended December 31	
	<u>1972</u>	<u>1971</u>
SOURCE OF FUNDS:		
Operations:		
Net income	\$ 907,189	\$ 624,808
Add back items not involving a current outlay or (receipt) of funds:		
Equity in net earnings of Gabriel	(706,195)	(444,266)
Depreciation and amortization	25,795	23,386
Minority interest in income	18,054	9,114
Increase in cash surrender value of life insurance	(2,010)	(2,350)
	<u>242,833</u>	<u>210,692</u>
Proceeds from issue of shares (Note 5)	200,000	40,000
	<u>442,833</u>	<u>250,692</u>
APPLICATION OF FUNDS:		
Acquisition of Company's capital stock	—	19,522
Payment to minority interest (Note 4)	24,900	29,800
Reduction of long-term debt	4,000	4,000
Additions to fixed assets (Net)	23,967	36,518
	<u>52,867</u>	<u>89,840</u>
Increase in working capital	389,966	160,852
Working capital at beginning of year	<u>904,826</u>	<u>743,974</u>
Working capital at end of year	<u>\$1,294,792</u>	<u>\$ 904,826</u>
SEE ACCOMPANYING NOTES.		

AUDITOR'S REPORT

To the Shareholders of Van Der Hout Associates Limited

We have examined the consolidated balance sheet of Van Der Hout Associates Limited and its subsidiaries as at December 31, 1972 and the consolidated statements of income, retained earnings, contributed surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Toronto, Ontario,
January 24, 1973.

In our opinion these consolidated financial statements present fairly the financial position of the Companies as at December 31, 1972 and the results of their operations and the source and application of their funds for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

LAVENTHOL KREKSTEIN HORWATH & HORWATH
Chartered Accountants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1972

1. Basis of consolidation:

The consolidated financial statements include the accounts of all subsidiary companies. These are:

Jaco Catalogue Equipment Limited	100% owned
J. C. Adams Company Limited	100% owned
Nelmor Corporation (Canada) Limited	100% owned
Permatex-Pep Limited	51% owned

2. Investments:

The Company owns 49% of the issued common shares of Gabriel of Canada Limited and 49.8% of its issued non-voting preference shares.

The investment in Gabriel is accounted for on the equity basis. Management is provided by the Company and Gabriel represents a significant part of the Company's activities. The Company is of the opinion that the disclosure afforded by this method of presentation is both informative and desirable in order to present fairly the Company's financial position and the results of its operations, even though Gabriel is precluded from redeeming preference shares or declaring dividends until such time as loans made to finance its expansions are repaid.

Following is a summary of the consolidated assets and liabilities of Gabriel at December 31, 1972.

ASSETS	(000's)	LIABILITIES	(000's)
Current	\$ 6,745	Current	\$ 3,134
Fixed (net)	4,277	Long-term debt	1,218
Other	347	Deferred taxes	794
		EQUITY	
		Van Der Hout	3,054
		Other	3,169
	<u>\$11,369</u>		<u>\$11,369</u>

3. Land, plant and equipment:

The fixed assets consist of the following:

	Cost	Accumulated Depreciation	Net
Land	\$ 56,000	\$ —	\$ 56,000
Machinery and equipment	231,759	143,243	88,516
Buildings and improvements	300,045	23,111	276,934
	<u>\$587,804</u>	<u>\$166,354</u>	<u>\$421,450</u>

Fixed assets are being depreciated at various rates based on their estimated useful lives.

4. Minority interest:

The minority interest consists of:

1. 1,660 6% third preference shares of Jaco Catalogue Equipment Limited, par value \$15	\$24,900
2. 49% of the issued capital and retained earnings of Permatex-Pep Limited	71,095
	<u>95,995</u>
Less portion of Jaco preference shares redeemable in 1973	24,900
	<u>\$71,095</u>

The Company has given the following undertaking to the preference shareholders of Jaco:

- (a) To cause the 6% dividend to be declared each year on the outstanding third preference shares of Jaco.

- (b) To cause the redemption of the third preference shares at par value over a period of five years, 20% each year, the first such redemption having been made in 1969.

In 1972, 1,660 shares were redeemed and the dividend of \$2,988 was paid and included as minority interest in the income statement.

Payments to minority interests in 1972 include:

Redemption of preference shares:	
Jaco Catalogue Equipment Limited	\$24,900

5. Stock options:

During 1972, 40,000 shares were issued at \$5 per share pursuant to options granted to certain key employees. Previous stock option agreements have been altered with the result that:

- (1) Incentive arrangements have been made which more directly relate to individual employee contribution within the organization, and
- (2) New options have been granted on 25,000 shares at \$7% exercisable in whole or in part, at any time up to May 5, 1982.

6. (a) Contributed surplus has been increased by \$50,381 as a result of a reallocation from retained earnings of the gain realized by a wholly-owned subsidiary in 1966 and 1967, on the sale of shares of the Company.

- (b) Gabriel of Canada Limited has received funds under government incentive programs of which only 50% is repayable. The remaining 50% is forgiven upon Gabriel meeting certain terms and conditions one of which is the repayment of the other 50%.

The grant portion of the first such program is treated as contributed surplus. The grant portion of the second program in the amount of \$100,000, which was also credited to contributed surplus requires a different accounting treatment, that is, the recording of the assets acquired under the program net of grants. Accordingly, the 1971 financial statements have been restated.

7. Commitments:

The Company and its subsidiaries occupy certain premises under leases which expire at various dates up to 1976. Exclusive of certain occupancy costs and escalations resulting from property tax increases, the annual rental commitments are as follows:

1973 -	\$46,816
1974 - 1976 -	\$41,200

The Company has guaranteed a lease which expires in 1977 for premises occupied by Gabriel of Canada Limited. The annual rental exclusive of certain occupancy costs amounts to \$15,935.

8. Remuneration of management and others:

The aggregate direct remunerations paid or payable by the Company and its consolidated subsidiaries, including Gabriel, to the directors and other senior officers of the Company for the year 1972, was \$269,403.

9. The 1971 comparative figures have been reclassified to conform with the 1972 presentation.
10. Earnings per common share are based on the weighted average number of common shares outstanding during the respective fiscal years. There would be no material dilution of earnings per share resulting from the exercise of the stock options outstanding.

Gabriel of Canada Limited

CONSOLIDATED STATEMENT OF INCOME

	1972	1971
SALES	\$15,538,748	\$16,483,840
Cost of sales	10,921,775	12,938,243
Selling, general and administrative	1,416,224	1,332,447
Depreciation	398,390	324,262
	<u>12,736,389</u>	<u>14,594,952</u>
INCOME BEFORE INCOME TAXES	2,802,359	1,888,888
Income taxes	1,361,144	982,222
NET INCOME	<u>\$ 1,441,215</u>	<u>\$ 906,666</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Retained earnings, beginning of year	\$ 3,604,826	\$ 2,698,160
Net income	1,441,215	906,666
Retained earnings, end of year	<u>\$ 5,046,041</u>	<u>\$ 3,604,826</u>

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS

Balance, beginning of the year	\$ 488,290	\$ 442,393
Grants received during year	38,460	45,897
Balance, end of the year	<u>\$ 526,750</u>	<u>\$ 488,290</u>

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

SOURCE OF FUNDS:		
Operations:		
Net income	\$ 1,441,215	\$ 906,666
Add back items not requiring a current outlay of funds:		
Depreciation and amortization	398,390	324,262
Deferred income taxes	87,719	249,731
	<u>1,927,324</u>	<u>1,480,659</u>
Loans and grants received under government assistance programs	148,674	499,958
	<u>2,075,998</u>	<u>1,980,617</u>
APPLICATION OF FUNDS:		
Additions to fixed assets (net)	276,555	1,044,536
Deferred costs	72,602	41,594
Reduction in long-term debt	539,874	539,524
	<u>889,031</u>	<u>1,625,654</u>
Increase in working capital	1,186,967	354,963
Working capital, beginning of year	2,424,742	2,069,779
Working capital, end of year	<u>\$ 3,611,709</u>	<u>\$ 2,424,742</u>

Orangeville Division

(VAN DER HOUT ASSOCIATES LIMITED AND ITS SUBSIDIARIES)

TEN YEAR SUMMARY

	1972
Net Sales ³	3,091,979
Equity in Net Profit VDH-Orangeville Division	200,994
% to Sales	6.5
Equity in Net Profit – Gabriel Division	706,195
Total Net Profit	907,189
Earnings per share	\$1.04
Number of shares outstanding at year-end	892,166
Working Capital	1,294,792
Working Capital Ratio	3.9:1
Net Additions to Fixed Assets	12,655
Fixed assets at cost	587,804
Total Assets	5,259,606
Long-term debt	6,000
Shareholders' Equity	4,740,029
Book Value per share	\$5.31

Gabriel Division

(GABRIEL OF CANADA AND ITS SUBSIDIARY)

TEN YEAR SUMMARY

	1972
Sales	15,538,748
Net Profit	1,441,215
% to Sales	9.3
Working Capital	3,611,709
Working Capital Ratio	2.2:1
Net Additions to Fixed Assets	240,678
Fixed Assets at cost	6,679,539
Total Assets	11,368,912
Long-term debt	1,218,354
Shareholders' Equity	6,222,791

¹Net of extraordinary expense item of \$32,333.

²The years 1963 to 1967 are reconstructed based on VDH years – ended August 31st and GABRIEL years – ended December 31st.

³Does not include GABRIEL Division.

1971	1970	1969	1968	1967 ²	1966 ²	1965 ²	1964 ²	1963 ²
3,479,941	3,046,827	3,532,574	1,883,535	1,566,821	1,958,537	1,669,448	1,096,449	1,049,392
180,542	163,440	108,946 ¹	(2,871)	5,090	60,745	60,345	34,080	3,130
5.2	5.4	3.1	(0.2)	0.3	3.1	3.6	3.1	0.3
444,266	422,802	310,025	185,289	134,604	115,022	102,464	65,284	41,136
624,808	586,242	418,971	182,418	139,694	175,767	162,809	99,364	44,266
\$.74	\$.70	\$.50	\$.23	\$.11	\$.14	\$.21	\$.13	\$.06
852,166	842,166	842,166	842,166	775,500	775,500	775,500	775,500	775,500
904,826	743,974	606,071	512,703	482,522	394,523	563,961	476,957	488,493
2.2:1	2.5:1	1.8:1	1.5:1	4.7:1	3.2:1	3.5:1	9.9:1	10.1:1
36,518	31,710	(58,593)	457,816	11,077	529	52,380	(1,826)	7,355
575,149	538,631	506,921	565,514	107,698	96,621	96,092	43,712	45,538
535,628	3,560,049	3,158,769	3,044,748	1,496,626	1,382,673	1,247,295	894,697	782,695
10,000	14,000	18,000	22,000	—	47,066	62,755	—	—
713,995	2,946,220	2,226,435	1,858,988	1,365,689	1,157,424	957,103	840,808	728,595
\$4.36	\$3.50	\$2.69	\$2.21	\$1.76	\$1.49	\$1.23	\$1.08	\$.94

1971	1970	1969	1968	1967	1966	1965	1964	1963
483,840	14,597,837	11,570,405	11,008,319	8,641,608	5,663,775	2,822,205	2,284,646	1,734,401
906,666	862,862	632,704	378,140	274,703	234,739	209,110	133,232	83,950
5.5	5.9	5.5	3.4	3.2	4.1	7.4	5.8	4.8
424,742	2,069,779	1,376,876	1,528,898	1,155,134	510,680	440,765	328,157	198,321
1.8:1	1.8:1	2.9:1	2.1:1	1.5:1	1.2:1	1.8:1	1.8:1	1.4:1
840,454	1,368,678	1,360,199	74,164	246,290	2,038,582	175,485	40,622	9,386
438,861	5,598,407	4,229,729	2,869,530	2,795,366	2,549,076	510,494	335,009	294,387
102,422	8,861,180	6,894,525	4,731,980	5,596,671	5,104,429	1,309,757	907,018	860,450
683,891	1,973,436	1,372,093	1,008,000	1,260,000	1,114,000	—	—	—
743,116	3,790,553	2,611,193	2,083,640	1,705,500	1,430,797	696,058	486,948	353,716

